

BEST'S COUNTRY RISK REPORT

Peru CRT-3

August 22, 2018

Region: Latin America

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Peru, a CRT-4 country, has a moderate level of economic, political, and financial system risk. Real GDP growth slowed in 2017 but is projected to accelerate to 3.7% in 2018, spurred by investments in infrastructure and supportive commodity prices. Inflation is projected to remain relatively low, at 1.6%, in 2018. Corruption, poverty, and economic vulnerability will continue to hinder progress in Peru.
- The map depicts the countries in Central America, South America and the Caribbean that A.M. Best evaluates. The majority of Latin American countries are categorized as CRT-3, CRT-4, or CRT-5.



- Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

Regional Summary: Latin America

- Growth in the region is likely to continue in 2018 due to expanding global growth, rebounding commodity prices, and strengthening domestic demand. However, risks are tilted to the downside owing to rising domestic political uncertainty, currency volatility, growing trade protectionism, rising fiscal deficits, and negative spillover effects from international financial markets.
- Conditions are largely positive, but several countries in the region are experiencing heightened risk. Years of unsustainable social programs, higher spending, and growing corruption have led to significant challenges for Venezuela, as well as Brazil and Argentina, albeit to a lesser extent.
- So far this year, there have been several presidential elections in Colombia, Mexico, and Venezuela; Brazil's is scheduled for later this year. The election environment is complex owing to mounting social conflicts, corruptions scandals, and policy uncertainty. According to the IMF's 2017 estimates, four countries are responsible for the largest proportion of the region's economic output: Brazil at USD2,055 billion, Mexico at USD1,149 billion, Colombia at USD309 billion, and Venezuela at USD210 billion.



Vital Statistics 2017

Nominal GDP	USD bn	215.22
Population	mil	31.8
GDP Per Capita	USD	6,762
Real GDP Growth	%	2.5
Inflation Rate	%	2.8

United Nations Estimates

Literacy Rate	%	94.2
Urbanization	%	79.2
Dependency Ratio	%	53.2
Life Expectancy	Years	74.0
Median Age	Years	28.0

Insurance Statistics

Insurance Regulator	Superintendency of Banks, Insurance, and Private Pensions	
Premiums Written (Life)	USD mil	1,642
Premiums Written (Non-Life)	USD mil	1,831
Premiums Growth (2016 - 2017)	%	-2.3

Regional Comparison

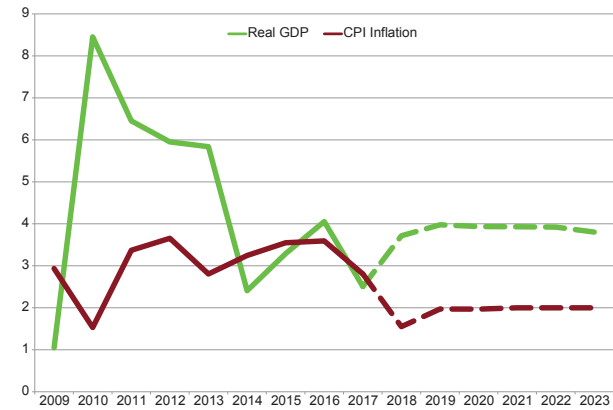
	Country Risk Tier
Peru	CRT-3
Argentina	CRT-5
Brazil	CRT-4
Chile	CRT-2
Colombia	CRT-4
Venezuela	CRT-5

Source: IMF, UN, Swiss Re, Axco and A.M. Best



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Economic Growth (%)



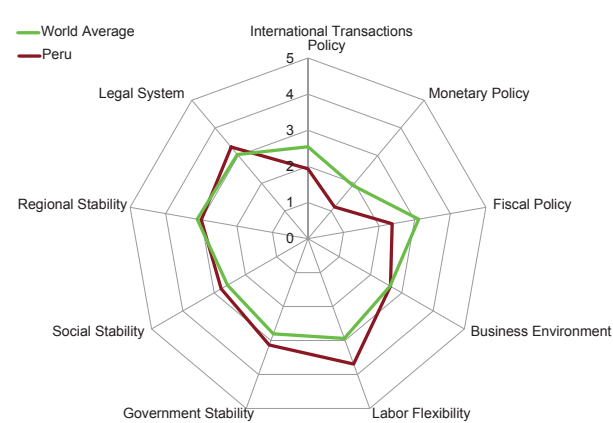
Source: IMF World Economic Outlook and A.M. Best

Economic Risk: Moderate

- Peru depends largely on mineral and metal exports, and foodstuffs as imports. Peru is also a large energy producer with abundant natural resources.
- As a result, the country is vulnerable to changes in world prices and shifts in global demand and trade policy. Recent global growth and high mineral and metal prices have supported the rapid expansion of the economy.
- Growth has slowed in recent years owing to severe floods and landslides, as well as the Lava Jato corruption scandal. The IMF has projected an accelerated pace of growth in 2018 and 2019.
- Despite sustained economic growth, poverty remains widespread and the distribution of wealth is unequal. More than 20% of the population lives in poverty, most in rural areas. Poverty and inequality have led to social unrest.

Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

Political Risk: Moderate

- President Pedro Pablo Kuczynski resigned in May 2018 due to his involvement in a corruption scandal. New President Martín Vizcarra is pro-business and is likely to continue most of the former administration's economic policies.
- Vizcarra lacks the support of a congressional majority and faces difficulty passing key legislation. The leading opposition is also pro-business, so the overall business friendly environment is unlikely to change.
- Peru's political environment is hindered by its institutions' lack of capacity and transparency. The political party system is not well established, and bureaucratic processes are inefficient and subject to corruption.
- Labor strikes are broadly peaceful, but environmental activism is strong. Protests against extractive industries are disruptive and are marred by high levels of violence. An escalation of such opposition could cause delays or the suspension in major projects.

GDP Per Capita and Population



Source: IMF and A.M. Best

Financial System Risk: Moderate

- The Superintendency of Banks, Insurance and Private Pensions is responsible for the supervision of the insurance and banking sectors.
- High rates of tax evasion as well as labor informality continue to damage government revenues. Lower tax rates have been suggested, but the magnitude of change will be limited.
- Peru's financial performance has strengthened significantly, which has resulted in a decline in poverty rates and significant de-dollarization of the economy. The banking sector is sound, but the IMF recommends increased supervision and enhanced measures against vulnerability.
- The International Monetary Fund has recommended improving Peru's financial depth and lowering the high levels of bank concentration to increase competition in the banking sector.